

**NEVADA STATE BOARD OF MEDICAL EXAMINERS**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2010**

NEVADA STATE BOARD OF MEDICAL EXAMINERS  
DECEMBER 31, 2010

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## INDEPENDENT AUDITORS' REPORT

To the Members of the Board  
Nevada State Board of Medical Examiners

We have audited the accompanying financial statements of the Nevada State Board of Medical Examiners as of and for the year ended December 31, 2010, as listed in the table of contents. These financial statements are the responsibility of the Nevada State Board of Medical Examiners' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Nevada State Board of Medical Examiners as of December 31, 2010 and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 20, 2011, on our consideration of the Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 2 through 5 and 19 through 20 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Kohn Colodny LLP*

Reno, Nevada  
July 20, 2011

## MANAGEMENT'S DISCUSSION AND ANALYSIS

**NEVADA STATE BOARD OF MEDICAL EXAMINERS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2010**

Within this section of the Nevada State Board of Medical Examiner's (Board) 12 month financial report, the Board's management provides narrative discussion and analysis of the financial activities of the Board for the twelve months ended December 31, 2010. The Board's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section.

**Financial Highlights**

- The Board's assets exceeded its liabilities by \$1,246,964 as of December 31, 2010. This compares to the previous period, at December 31, 2009 when assets exceeded liabilities by \$631,572.
- Total assets include cash and short-term investments, receivables from disciplinary adjudications, and capital assets, net of accumulated depreciation. Total assets as of December 31, 2010 were \$3,211,763, as compared to \$5,085,701 as of December 31, 2009. This represents a decrease of \$1,873,938 or 37%. The assets are 94% cash and cash equivalents that are held for expenses over the two year licensing cycle, therefore we would expect the assets to decrease each fiscal period until the end of the biennium.
- Total liabilities, including deferred licensing revenue, as of December 31, 2010 were \$1,964,799, as compared to \$4,454,129 as of December 31, 2009. This was a decrease of \$2,489,330 or 56%.
- Total net assets as of December 31, 2010 are comprised of the following:
  1. Capital assets (property and equipment), net of accumulated depreciation of \$100,569.
  2. Unrestricted net assets of \$1,156,634, represents the extent to which liabilities and reserved equity (net capital assets) exceed assets. This accumulation of net assets is the cumulative result of operating revenues in excess of operating expenses.

**Overview of the Financial Statements**

Management's Discussion and Analysis introduces the Board's basic financial statements, which include: 1) The basic financial statements, and 2) Notes to the financial statements. Also included in this report is additional information to supplement the basic financial statements and a report on internal control and compliance.

**Board's Financial Statements**

The Board's financial statements are presented using a perspective similar to that found in the private sector with its basis in full accrual accounting. The financial statements reflect operations of the Board that are principally supported from business-type activities that are intended to recover all or a significant portion of their costs through user fees and charges. The Board's activities include the regulation and licensing of medical doctors, physician assistants, respiratory therapists and perfusionists.

The first of these statements is the *Balance Sheet*. This is the Board's statement of position presenting information that includes all of the Board's assets and liabilities, with the difference reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the Board as a whole is improving or deteriorating.

**NEVADA STATE BOARD OF MEDICAL EXAMINERS  
MANAGEMENT DISCUSSION AND ANALYSIS  
December 31, 2010**

The second statement is the *Statement of Revenues, Expenses and Changes in Net Assets*, which reports how the Board's net assets changed during the reported fiscal years. All changes in net assets are reported as soon as the underlying events giving rise to the change occur, regardless of when cash is paid. The *Statement of Revenues, Expenses and Changes in Net Assets* also illustrates how the Board's primary activities are reliant on revenues provided by the licensing process.

The third statement is the *Statement of Cash Flows*. This statement outlines the changes in cash balances. The changes consist of cash receipts and payments for the reported years. The statement provides answers to such questions as where did cash come from, what was cash used for and what was the change in the cash balance during each year.

The accompanying *Notes to the Financial Statements* provide information essential to a full understanding of the Board's financial statements.

In addition to the basic financial statements described above, this report also presents *Supplementary Information* in the form of various schedules. The schedules are provided to enhance the readers' understanding of the basic financial statements. Last, is the *Report on Internal Controls and Compliance*. This report provides information on the adequacy and effectiveness of controls. It encompasses the Board's governance, operations, and information systems. It includes the reliability and integrity of financial and operational information, safeguarding of assets, and compliance with laws, regulations, policies, and procedures.

### **Financial Analysis of the Board**

As year-to-year financial information is accumulated on a consistent basis, changes in net assets may be observed and used to discuss the changing financial position of the Board as a whole.

The Board's net assets as of December 31, 2010 were \$1,246,964, which is an increase of \$615,392 from the net assets of \$631,572. The December 31, 2009 net assets were \$631,572, which is an increase of \$106,324 from the net assets of \$525,248 as of June 30, 2009. The June 30, 2009 net assets of \$525,248 were up \$472,711 from June 30, 2008. Schedule 1 provides a summary of the Board's net assets:

### **Economic Factors**

As a result of the down economy in 2010, the organization has realized a lower yield on investments than in previous years. This can be seen in the unfavorable budget difference in *Other Income*. This was expected and the continuing economic trend of lowering interest rates is projected to be unfavorable in the *Other Income* category for 2011.

Because of the economic downturn and at the encouragement of the state, management began an overall detailed expenditure review at the end of 2009. The resulting austerity program has shown significant reductions in spending. The focus has been on re-routing expenditures to the places that will give the overall best outcomes for the mission of the board. The significant reductions have been in postage and shipping, telephone, diversion programs, outside contracts, rent, and travel. The funds saved have been used to facilitate a near fully staffed office in Las Vegas and an additional attorney. These changes have significantly decreased the turn around time for our legal and investigative divisions, saved money in travel, increased our reimbursement of investigative costs, and thereby aided our effectiveness in our public safety mission.

It appears from our 2010 annual report that the economic downturn has not decreased the numbers in our licensee base. The 2010 annual report showed an upward trend in licensee numbers consistent with previous years. We have budgeted accordingly for 2011.

**NEVADA STATE BOARD OF MEDICAL EXAMINERS  
MANAGEMENT DISCUSSION AND ANALYSIS  
December 31, 2010**

<b>SCHEDULE 1 - CONDENSED BALANCE SHEETS</b>								
<b>DECEMBER 31, 2010, DECEMBER 31 2009, and JUNE 30 2009</b>								
	<b>YEAR</b>	<b>6 MONTHS</b>	<b>YEAR</b>	<b>12/31/10 vs 12/31/09</b>		<b>2009 vs 2008</b>		
	<b>12/31/2010</b>	<b>12/31/2009</b>	<b>6/30/2009</b>	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>	
Cash and investments	\$ 2,909,517	\$ 4,831,488	\$ 5,582,017	\$ (1,921,971)	-40.0%	\$ 2,513,970	81.9%	
Capital assets, net	100,569	142,417	119,724	(41,848)	-29.0%	(67,048)	-35.9%	
Other assets	201,677	111,796	122,066	89,881	80.0%	90,789	290.3%	
<b>Total Assets</b>	<b>\$ 3,211,763</b>	<b>\$ 5,085,701</b>	<b>\$ 5,823,807</b>	<b>\$ (1,873,938)</b>	<b>-37.0%</b>	<b>\$ 2,537,711</b>	<b>77.2%</b>	
Liabilities	\$ 1,964,799	\$ 4,454,129	\$ 5,298,559	\$ (2,489,330)	-56%	\$ 2,065,000	63.9%	
Invested in capital assets	90,330	91,191	119,724	(861)	-1.0%	(67,048)	-35.9%	
Unrestricted net assets	1,156,634	540,381	405,524	616,253	101.0%	539,759	402.1%	
<b>Total Net Assets</b>	<b>1,246,964</b>	<b>631,572</b>	<b>525,248</b>	<b>615,392</b>	<b>100.0%</b>	<b>472,711</b>	<b>899.8%</b>	
Total Liabilities and Net Assets	\$ 3,211,763	\$ 5,085,701	\$ 5,823,807	\$ (1,873,938)	-37.0%	\$ 2,537,711	77.2%	

**Budgetary Highlights**

Schedule 2 presents the revenue and expense variances with the final budget for the year ended December 31, 2010, the six month ended December 31, 2009 and the year ended June 30, 2009.

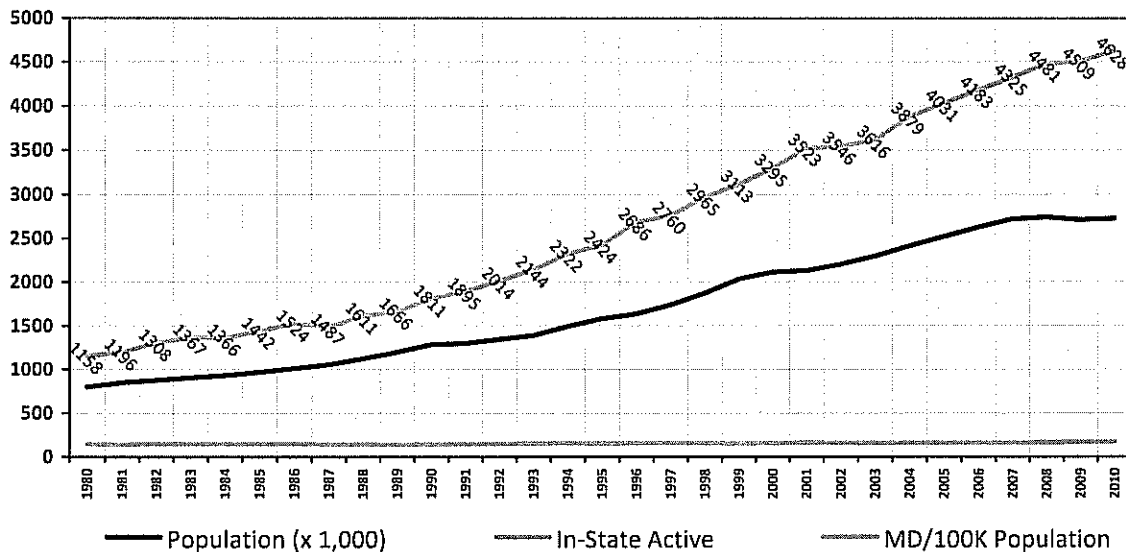
<b>SCHEDULE 2</b>			
<b>FAVORABLE (UNFAVORABLE) BUDGET VARIANCES</b>			
	<b>YEAR</b>	<b>6 MONTHS</b>	<b>YEAR</b>
	<b>ENDING 12/31/10</b>	<b>ENDING 12/31/09</b>	<b>ENDING 06/30/09</b>
<b>REVENUES</b>			
Operating revenues	\$ 289,500	\$ 161,000	\$ 259,300
Other income	(24,000)	400	22,400
<b>Total Income</b>	<b>\$ 265,500</b>	<b>\$ 161,400</b>	<b>\$ 281,700</b>
<b>EXPENDITURES</b>			
Personnel	\$ (5,700)	\$ 35,800	\$ 28,600
Operations	110,900	(90,400)	91,800
Capital outlay	-	-	(500)
<b>Total Expenditures</b>	<b>\$ 105,200</b>	<b>\$ (54,600)</b>	<b>\$ 119,900</b>
<b>NET</b>	<b>\$ 370,700</b>	<b>\$ 106,800</b>	<b>\$ 401,600</b>

**NEVADA STATE BOARD OF MEDICAL EXAMINERS  
MANAGEMENT DISCUSSION AND ANALYSIS  
December 31, 2010**

**OTHER INFORMATION**

In 2010, the ratio of physicians to 100,000 population\* again increased over the previous year. The following graph shows the growth of the state's population (measured in thousands so that the trend line will fit on the graphs), the growth in the state's active, in-state physician population (in absolute numbers), and the ratio of physicians to population (measured as physician per 100,000 population). From 1980 through 1992, the ratio of physicians to 100,000 population was relatively static, staying between 140 and 151 physicians per 100,000 population throughout these years. From 1993 through 2007, the ratio increased, averaging between 153 to 161 physicians per 100,000. In 2008, the ratio increased to 164, in 2009 it increased to 166, and in 2010, the ratio increased again, to 170.

**Comparison of Population With In-State Active Physicians**



\*Population statistics provided by the Nevada State Demographer, University of Nevada.



## BASIC FINANCIAL STATEMENTS

NEVADA STATE BOARD OF MEDICAL EXAMINERS  
STATEMENT OF NET ASSETS  
DECEMBER 31, 2010

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ASSETS

Current assets

Cash and cash equivalents	\$ 2,909,517
Compliance fees receivable, net	141,503
Fines receivable	57,000
Prepaid expense	<u>3,174</u>

Total current assets 3,111,194

Noncurrent assets

Capital assets	687,110
Less accumulated depreciation	<u>586,541</u>
	<u>100,569</u>

Total assets 3,211,763

LIABILITIES

Current liabilities

Accounts payable	45,879
Accrued compensated absences and other payroll liabilities	170,481
Deferred revenue	1,681,200
Fines payable	57,000
Capital lease obligation - current	<u>9,166</u>

Total current liabilities 1,963,726

Noncurrent liabilities

Capital lease obligation, less current portion	<u>1,073</u>
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Total liabilities 1,964,799

NET ASSETS

Invested in capital assets, net of related debt	90,330
Unrestricted	<u>1,156,634</u>

Total net assets \$ 1,246,964

NEVADA STATE BOARD OF MEDICAL EXAMINERS  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2010

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OPERATING REVENUE	
License and registration fees	\$ 2,980,915
Application fees	323,225
Compliance administration reimbursements	203,661
Miscellaneous revenue	<u>117,092</u>
Total operating revenue	<u>3,624,893</u>
OPERATING EXPENSES	
Personnel services	2,234,358
Travel	45,106
Operating	<u>756,618</u>
Total operating expenses	<u>3,036,082</u>
Operating income	588,811
NONOPERATING REVENUE (EXPENSES)	
Investment income	27,617
Interest expense	<u>(1,036)</u>
Total nonoperating revenue (expenses)	<u>26,581</u>
Change in net assets	615,392
NET ASSETS, beginning of year	<u>631,572</u>
NET ASSETS, end of year	<u>\$ 1,246,964</u>

See accompanying notes

NEVADA STATE BOARD OF MEDICAL EXAMINERS  
STATEMENT OF CASH FLOW  
FOR THE YEAR ENDED DECEMBER 31, 2010

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CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from operations	\$ 1,109,443
Cash paid for personnel services	(2,222,586)
Cash paid for travel and operating expenses	(780,819)
Cash paid for interest expense	(1,036)
Cash received for interest	<u>27,617</u>
Net cash used by operating activities	<u>(1,867,381)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of assets	(47,527)
Payments on capital lease obligations	<u>(7,063)</u>
Net cash used by investing activities	<u>(54,590)</u>
Net decrease in cash	(1,921,971)
CASH AND CASH EQUIVALENTS, beginning of year	<u>4,831,488</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 2,909,517</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH USED BY OPERATIONS	
Change in net assets	\$ 615,392
Adjustments to reconcile net income to net cash used by operating activities	
Depreciation	58,880
Changes in certain assets and liabilities:	
Compliance fees receivable, net	(61,849)
Prepaid expense	2,368
Accounts payable	(40,343)
Accrued compensated absences and other payroll liabilities	11,772
Deferred revenue	<u>(2,453,601)</u>
Net cash used by operating activities	<u>\$ (1,867,381)</u>

See accompanying notes

## NOTES TO FINANCIAL STATEMENTS

NEVADA STATE BOARD OF MEDICAL EXAMINERS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

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NOTE 1 - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Nevada State Board of Medical Examiners (the Board) created in 1899, is the licensing and regulatory agency for the physicians, physicians assistants and respiratory therapists in the State of Nevada. The Board is regulated by the Nevada Revised Statutes (NRS) Chapter 630, which also specify the authorized activities of the Board.

The financial statements of the Board have been prepared in accordance with generally accepted accounting principles as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The Board, through the legislative process, changed its fiscal year end to December 31 effective July 1, 2009.

The following is a summary of the more significant accounting policies.

Reporting Entity

Effective July 1, 2001, NRS Chapter 353 was amended to exempt certain professional and occupational boards from the state budget act and the provisions governing the administration of state funding. The provisions of Chapter 353 do not apply to boards created pursuant to chapters 623 to 625A, inclusive, 628, 630 to 640A inclusive, 641 and 656 of the NRS and the officers and employees thereof. Accordingly, the Board's budgeting and accounting practices and procedures have been removed from the oversight of the Department of Administration.

The Board's financial statements are not included in the financial statements of the State of Nevada since the State does not exercise financial or administrative control over the board. This is in conformance with GASB codification Section 2100, *Defining the Government Reporting Entity*.

Basis of Presentation

The Board uses a proprietary fund to account for its financial position and results of operations. Proprietary fund types are used to account for activities conducted on a fee-for service basis in a manner similar to commercial enterprises. The measurement focus is upon determination of net income, financial position and changes in cash flows.

The Board applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Basis of Accounting

The Board maintains its accounting records on an economic resources measurement focus using the accrual basis of accounting. Revenue is recognized when earned and expenses are recognized when the related liabilities are incurred.

Operating income reported in the financial statements includes revenue and expenses related to the primary, continuing operations of the Board. The primary sources of revenue are licensing, registration and application fees from physicians, physicians for non-compliance with the regulation and fees charged for criminal background checks, copy requests, letters of verification,

NEVADA STATE BOARD OF MEDICAL EXAMINERS  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2010

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NOTE 1 - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(Continued)

Basis of Accounting (Continued)

physician listings, label request and legal fee recoveries. Operating expenses included administrative costs and depreciation of capital assets. Interest income earned from the Board's investing activities is presented as non-operating revenue.

Budget Data

The Board adopts biennial operating budgets and budgetary accounting is employed as a management control. The budget is prepared using accounting principles generally accepted in the United States of America.

Cash and Cash Equivalents

Cash is maintained in a commercial bank in Reno, Nevada. Cash accounts are maintained and available to meet current operating requirements and are readily identifiable. The Board's certificates are held in its name and it participates in the State of Nevada collateralization program to assure that funds deposited are protected.

Cash also consists of time certificates of deposit, which are stated at fair value. The net increase (decrease) in the fair value of the investments is the difference between the cost (if purchased during the year) or the fair value of the investments at the beginning of the year, and the fair value of the investments at the end of the year. Changes in fair value of the certificates are reflected, together with interest income, as investment income in the accompanying financial statements. By statutes, all cash must be deposited in entities that are located in the state of Nevada.

Compliance Fees Receivable

Compliance fees receivable consist of reimbursable administrative costs for processing claims and are assessed in accordance with the applicable NRS and Board policies. Allowance for uncollectible receivables is based upon management's assessment of historical trends and the periodic aging of the compliance fees receivable. The allowance for uncollectible receivables as of December 31, 2010 totals \$26,747.

Capital Assets

Equipment, furniture, and fixture purchased by the Board are presented in the statement of net assets as capital assets. Capital assets are defined by the Board as assets with an initial, individual cost of \$500 and an estimated useful life of more than one year. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are expensed as incurred. Capital assets are depreciated using the straight-line method over three to seven years. Leasehold improvements are amortized over the shorter of the asset life or lease term.

Compensated Absences

The Board's policy is to provide for the accumulation of up to 240 hours earned vacation leave which is fully vested when earned. The Board recognizes the expenses and liability for compensated absences as the leave is earned. Sick days and other accumulated paid absences are not vested and therefore it is the Board's policy to recognize the costs for sick days and other absences when paid.

NEVADA STATE BOARD OF MEDICAL EXAMINERS  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2010

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NOTE 1 - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(Continued)

Deferred Revenue

By provisions of statute, the Board administers its licensing registration on biennial periods. Deferred revenue represents collections received upon the biennial renewal of licenses and is recognized ratably over the renewal period.

Net Assets

Equity is classified as net assets and displayed in these components:

- Invested in capital assets – cost of capital assets net of accumulated depreciation and related debt.
- Restricted net assets – Net assets subject to restrictions that are imposed by external groups, such as creditors or laws and regulations of other governments the law through legislative provisions. The Board has no restricted net assets.
- Unrestricted net assets – Net assets that are neither classified as restricted or as invested in capital assets.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

Subsequent events have been evaluated through the report date, which represents the date the financial statements were available to be issued. Subsequent events after that date have not been evaluated.

NOTE 2 - CASH AND CASH EQUIVALENTS

Concentration of credit risk and custodial credit risk: The Board maintains its checking accounts and certificates of deposit in commercial banks located in Nevada. Custodial credit risk is the risk that in the event of a bank or brokerage failure, the Board's deposits may not be returned. The time certificates of deposit are held in the name of the Board. The accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 in the aggregate per bank for the checking accounts and \$250,000 for the time deposits.

By provisions of statutes, the Board is required to deposit all money in banks or savings and loans associations located in the state of Nevada.

The bank balances at December 31, 2010 totaled \$2,927,859, \$922,859 of which is not covered by the FDIC. However, the bank balances are collateralized with securities held by the Nevada Pooled Collateral program.

Interest rate risk: The Board manages its risk exposure to changes in interest rates by investing in certificates of deposits with maturities of two years or less. Interest rate risk is the risk that changes in interest rates will adversely affect the value of the certificates of deposits.



NEVADA STATE BOARD OF MEDICAL EXAMINERS  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2010

NOTE 3 - CAPITAL ASSETS

The Board has custodial responsibility to the State of Nevada for furniture, fixtures and equipment acquired with resources of the Board. The capital asset activity during the year is as follows:

	December 31, 2009	Additions	Deletions	December 31, 2010
<u>Capital assets not being depreciated</u>				
None	\$ -	\$ -	\$ -	-
<u>Capital assets being depreciated</u>				
Furniture and equipment	269,698	41,953	-	311,651
Leasehold improvements	36,207	1,505	-	37,712
Computers, software, and printers	370,273	4,068	(36,594)	337,747
Total depreciable assets	676,178	47,526	(36,594)	687,110
<u>Less accumulated depreciation</u>				
Furniture and equipment	(206,587)	(33,359)	-	(239,946)
Leasehold improvements	(29,740)	(2,987)	-	(32,727)
Computers, software, and printers	(297,434)	(22,534)	6,100	(313,868)
Total accumulated depreciation	(533,761)	(58,880)	6,100	(586,541)
Net capital assets	\$ 142,417	\$ (11,354)	\$ (30,494)	\$ 100,569

NOTE 4 - CAPITAL LEASE OBLIGATION

The Board enters into a non-cancelable capital lease for certain equipment. The term is for sixty months and requires aggregate monthly payments of \$764 plus incidental fees. The cost of equipment under capital lease included in capital assets is as follows as of December 31:

Computer, software and printers	\$ 36,594
Less accumulated depreciation	(28,055)
Net capital lease assets	\$ 8,539

NEVADA STATE BOARD OF MEDICAL EXAMINERS  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2010

NOTE 4 - CAPITAL LEASE OBLIGATION (Continued)

The future minimum lease obligations are as follows:

Years ending December 31,	
2011	\$ 9,166
2012	1,527
Total minimum lease payments	10,693
Amount representing interest	(454)
Present value of minimum lease payments	10,239
Current maturities of capital lease payments	(9,166)
Present value of long-term capital lease obligation	\$ 1,073

NOTE 5 - OPERATING LEASE OBLIGATIONS

The Board currently leases office space in Reno and Las Vegas under agreements expiring March 31, 2014 and May 31, 2015, respectively. Rent expense under these leases for the year ended December 31, 2010 was \$147,488.

The Board also leases copiers under a non-cancelable lease that expires December 2013 and March 2014. Lease expense of \$11,390 was incurred for the year ended December 31, 2010.

The following is a schedule by years of future minimum rental payments:

<u>Year ending December 31:</u>	
2011	\$ 171,274
2012	171,274
2013	171,484
2014	66,829
2015	14,080

NOTE 6 - DEFINED BENEFIT PENSION PLAN

Plan Description. The Nevada State Board of Medical Examiners contributes to the Public Employees Retirement System of the State of Nevada (PERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the Public Employees Retirement System of the State of Nevada. PERS provides retirement, disability, and death benefits, including annual cost-of-living adjustments, to plan members and their beneficiaries. Chapter 286 of the Nevada Revised Statutes establishes the benefit provisions provided to the participants of PERS. These benefit provisions may be amended only through legislation. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Public Employees Retirement System of the State of Nevada, 693 West Nye Lane, Carson City, Nevada 89703-1599 or by calling (775) 687-4200.

NEVADA STATE BOARD OF MEDICAL EXAMINERS  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2010

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NOTE 6 - DEFINED BENEFIT PENSION PLAN (Continued)

Funding Policy. The Board is enrolled in the employer-pay contribution plan. In this plan, the Board is required to contribute all amounts due. The contribution requirements of plan members and the Board are established under Chapter 286 of the Nevada Revised Statutes. The Board's contribution rate for the year ended December 31, 2010, the six months ending December 31, 2009 and the year ended June 30, 2009 was 20.5%. The Board contributed \$325,330, \$142,622, and \$279,919 for the year ending December 31, 2010, the six months ending December 31, 2009 and the year ended June 30, 2009, respectively.

The second funding mechanism for providing benefits is the employer/employee paid contribution plan. Under this method, employees are required to contribute a percentage of their compensation to the plan, while the Board is required to match that contribution. The contribution rate for the year ended December 31, 2010, the six months ended December 31, 2009 and the year ended June 30, 2009 was 10.5%. The contributions made on behalf of Board employees for the year ending December 31, 2010, the six months ending December 31, 2009 and the year ended June 30, 2009 was \$17,884, \$8,972, and \$15,796, respectively.

NOTE 7 - POST EMPLOYMENT RETIREMENT BENEFITS

Legislation affords public employees of the state of Nevada (State) the opportunity to enroll, upon their retirement, in the Public Employees Benefit Program (PEBP) health insurance plan. The legislation obligates the State for a portion of the medical premiums for those retired employees who elect to enroll in the PEBP health insurance plan. There is currently twelve retired employee participating in this plan. The Board has not been billed directly for its cost of this post employment retirement benefit. However, the State is charging an annual fee to the Board based on a rate determined by the State and the budgeted salaries of the Board. During the year ended December 31, 2010, the Board paid the State \$21,208 for this additional fee for post employment retirement benefits. This annual cost is expected to continue and possibly increase based on future decisions by the State to allocate post employment retirement benefits to the Board's employees. Representatives of PEBP's have indicated that the post employment benefit liability is at the PEBP's level and the Board merely pays its annual required contribution based on the fees charged by the State. The Plan is not accounted for as a trust fund, as an irrevocable trust has not been established to account for the Plan and no financial reports are issued.

NOTE 8 - DISCIPLINARY PROCEEDINGS AND CONTINGENCIES

In connection with the Board's enforcement program as prescribed by statute and regulation, it may seek recovery from licensees for costs incurred related to the investigative and disciplinary actions taken by the Board. Judgments made by the Board for the year ended December 31, 2010 included stipulations for cost recoveries of \$198,586. These recovery amounts are presented as part of operating revenue.

In addition, the Board is authorized to impose an administrative fine. The Board acts as an agent for the State of Nevada with respect to the administrative fine; thus, fines collected by the Board are remitted to the State of Nevada. Judgments made by the Board for the year ended December 31, 2010 included stipulation for administrative fines of \$76,500.

Certain claims, suits and complaints associated with the Board's ordinary course of business are pending or may arise. During the six months ended December 31, 2010, the Board was involved in litigation, which has since been resolved, relating to an open meeting law violation.

NEVADA STATE BOARD OF MEDICAL EXAMINERS  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2010

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NOTE 9 - COMPLIANCE WITH NEVADA REVISED STATUTES AND NEVADA ADMINISTRATIVE CODE

The Board conformed to all significant statutory constraints on its financial administration during the year ended December 31, 2010.

NOTE 10 - COMMITMENTS

On November 1, 2010, the Board entered into an agreement with System Automation to provide professional services for online licensing maintenance and support. The contract term expires on December 31, 2011, with biennial renewal terms.

## REQUIRED SUPPLEMENTARY INFORMATION

NEVADA STATE BOARD OF MEDICAL EXAMINERS  
STATEMENT OF REVENUE AND EXPENSES - BUDGET AND ACTUAL  
FOR THE YEAR ENDED DECEMBER 31, 2010

	Original and Final Budget	Actual Amounts Budgetary Basis	Variance to Final Budget Favorable (Unfavorable)
<b>OPERATING REVENUES:</b>			
Fines and fees			
License and registration fees	\$ 2,889,370	\$ 2,980,915	\$ 91,545
Application fees	279,000	323,225	44,225
Compliance administration reimbursements	51,000	203,661	152,661
Miscellaneous revenue	116,000	117,092	1,092
Total revenue	<u>3,335,370</u>	<u>3,624,893</u>	<u>289,523</u>
<b>OPERATING EXPENSES</b>			
Personnel services			
Staff	1,578,459	1,609,614	(31,155)
Board members	20,400	15,475	4,925
Taxes	62,295	30,542	31,753
Retirement program	347,143	325,336	21,807
Employee health insurance	220,369	253,391	(33,022)
	<u>2,228,666</u>	<u>2,234,358</u>	<u>(5,692)</u>
Travel	44,440	45,106	(666)
Operating			
Audit	45,000	22,183	22,817
Bad debt expense	-	379	(379)
Bank charges	6,000	7,233	(1,233)
Background investigation	31,500	38,438	(6,938)
Education and training	5,500	3,949	1,551
Depreciation	67,300	58,880	8,420
Diversion program	-	-	-
Dues and registration	7,500	3,922	3,578
Equipment maintenance	30,000	16,334	13,666
Equipment rental	28,000	17,692	10,308
Hearing officers	52,500	44,444	8,056
Insurance	3,375	4,588	(1,213)
Investigation	92,000	91,918	82
Legal	101,875	105,775	(3,900)
Licensing expense	300	1,149	(849)
Lobbying	-	38	(38)
Office rent	175,000	147,488	27,512
Office supplies	55,950	44,206	11,744
Postage	47,500	30,576	16,924
Printing and copying	8,000	13,497	(5,497)
Telephone	35,800	23,898	11,902
Web hosting fees	75,000	80,031	(5,031)
	<u>868,100</u>	<u>756,618</u>	<u>111,482</u>
Total operating expenses	<u>3,141,206</u>	<u>3,036,082</u>	<u>105,124</u>
Operating income (loss)	194,164	588,811	394,647

See accompanying notes

NEVADA STATE BOARD OF MEDICAL EXAMINERS  
 STATEMENT OF REVENUE AND EXPENSES - BUDGET AND ACTUAL (CONTINUED)  
 FOR THE YEAR ENDED DECEMBER 31, 2010

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	Original and Final Budget	Actual Amounts Budgetary Basis	Variance to Final Budget Favorable (Unfavorable)
NONOPERATING REVENUE (EXPENSES)			
Investment income	\$ 50,500	\$ 27,617	\$ (22,883)
Interest expense	<u>-</u>	<u>(1,036)</u>	<u>(1,036)</u>
Total expenses	<u>50,500</u>	<u>26,581</u>	<u>(23,919)</u>
 Change in net assets	 <u>\$ 244,664</u>	 <u>\$ 615,392</u>	 <u>\$ 370,728</u>

See accompanying notes

## REPORT ON INTERNAL CONTROL AND COMPLIANCE



INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Members of the Board  
Nevada State Board of Medical Examiners

We have audited the financial statements of the Nevada State Board of Medical Examiners, as of and for the year ended December 31, 2010, and have issued our report thereon dated July 20, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Board's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

Our prior period audit identified the following deficiencies related to the financial/accounting activities of the Board:

Cash Disbursements

- Signed checks were being returned for mailing to persons involved in the invoice processing and check preparation functions.
- There were several large checks that had been outstanding for several months.
- Credit card policies were being followed; however, there was no formal documentation of these policies.
- Certain invoices were recorded as of the check date rather than the invoice date.

Status:

All prior year deficiencies have been addressed and corrective action plans were implemented as follows:

- The administrative assistant places the signed checks into envelopes and puts them in the mail.
- Proper procedures were followed based on consultation with the Board's legal department to remove stale checks.
- The policies and procedure manual was updated to include credit card policy.
- Procedures are now in place to record invoices on the invoice date.

Cash Receipts

- Checks that were received by mail were not immediately restrictively endorsed when the mail was opened, but were delivered to the accounts receivable clerk to be endorsed. The accounts receivable clerk posted the deposit directly into the licensing software and had the ability to make changes and modifications in the software.
- Although the receipt of cash was limited and involves minimal amounts, in the rare instances that it was received, established procedures were not in place to properly handle the funds. Furthermore, there was a lack of segregation of duties between the receipt of cash/checks and posting in the licensing software system.

Status:

All prior year deficiencies have been addressed and corrective action plans were implemented as follows:

- Checks are immediately restrictively endorsed by the receptionist opening the mail by stamping checks with the Board's full name, checking account number, and the words "for deposit only." After they are endorsed, they are copied by the same person and then they are provided to the accounts receivable clerk. The copies are provided to the Finance Manager to reconcile to the actual bank deposit receipts.
- The Board is utilizing a three part receipt book for all cash/checks collected at the office. One part will stay in the book, one part will go to accounting and one part will be maintained with the deposit documentation.

Vacation Policy

During the course of the prior audit of the year-end vacation accrual, it came to our attention that there was an inconsistency between the vacation policies practiced and vacation policy noted in the employee manual. Employees were being allowed to carryover in excess of the 240 hours accrued, which was in direct conflict with the Policy and Procedure Manual.

Status

All prior year deficiencies have been addressed and corrective action plans were implemented as follows:



- This inconsistency was recognized by current management and a resolution was implemented in December 2009 to put the vacation accrual balances in line with the policies and procedure manual.

#### Personnel Files

We noted that some of the personnel files were missing chronological salary documentation or the appropriate salary authorization. This information is essential for maintaining proper documentation to support employment activities and internal controls.

#### Status

All prior year deficiencies have been addressed and corrective action plans were implemented as follows:

- Employees' files tested were noted with available historical and current pay rate information.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board's financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board members and management and is not intended to be and should not be used by anyone other than these specified parties.

*Krohn Colodny LLP*

Reno, Nevada  
July 20, 2011

